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A Brief History of the Stock Market

The history of the modern stock market dates back to the Netherlands in 1602, when the Hendrick de Keyser Exchange was formed in Amsterdam. Today, we hear a lot about the stock market in the headlines of the daily news. It is a major part of the U.S. and global economy today. For the past few years, we've heard about how the stock market is reaching record highs, but do most of us even know how we got the stock market? In this month's article, I'm gonna write a brief summary on how the stock market emerged and developed. This article will cover a series of events that occurred over centuries of economic history, so ultimately, I cannot cover everything, but I would like to highlight the major milestones.

In the 14th century, moneylenders in Venice began trading debts with one another. This eventually trickled down to individual investors, who began buying these debts in exchange for the interest payments, according to Investopedia. These individual investors were wealthy individuals and not your average citizens, and they were trading bonds, not stocks. However, this is important because it was the first time in history that securities were being traded, which helped lead to the foundation of stock trading.

In 1611, the first modern stock trading was created in Amsterdam. The Dutch East India Company became the first publicly traded company. According to Investopedia, in the 1600s, the Dutch, British, and French governments provided charters to companies with East India in their names. Ship owners wanted investors to fund the voyage because of the risks of losing their own goods. In return, investors would get a percentage of the proceeds if the voyage was successful. Investors would invest in multiple of these ventures to spread risk, as these companies typically lasted only one voyage (Investopedia). The East India companies eventually evolved to issue

stocks that paid dividends on the proceeds of all voyages rather than on individual voyages (Investopedia). These were the first modern joint-stock companies.

In the early years of the United States, Philadelphia was the financial hub of the newly founded country. This makes sense because Philadelphia was where the Continental Congress was held and where the temporary capital of the newly formed United States was located. In 1790, the Philadelphia Stock Exchange was formed. However, Philadelphia would not remain the financial hub of the newly formed United States for long. According to the historian Brian Murphy's article "The Rise of an American Institution: The Stock Market," Alexander Hamilton wanted to create a series of national banks in order to raise money by buying Continental dollars and selling land to investors (Murphy). One of these banks would be in New York. Thomas Jefferson agreed to this on the condition that the capital would be in Northern Virginia rather than New York. When the national bank was created in New York, investors there began to take hold of financial power (Murphy).

In New York, merchants, auctioneers, and brokers met in coffee houses on Wall Street to conduct business in trading securities and other forms of investment, like land speculation (Murphy). This is how Wall Street got its start. On May 17, 1792, the New York Stock Exchange and Board Bonds (renamed to New York Stock Exchange, NYSE in 1863) was formed by twenty-four brokers who signed the Buttonwood Agreement (Murphy). The brokers of the NYSE were in direct competition with the merchants and auctioneers who met in the coffee houses (Murphy). These men agreed to exclusively deal with each other and set minimum commissions, cutting out the auctioneers and merchants from their investments (Murphy). New York eventually surpassed Philadelphia as the financial hub of the United States. The NYSE helped fund the construction of the Erie Canal, which opened in 1825, making New York more

accessible to the western territories, and the city's financial sector grew even larger. By the mid 1800s, the NYSE became a broad indicator of whether there were troubles in the U.S. economy (Murphy). With the advancement of technology, like the telegraph, came along the access to information on what was happening in the market, further affecting the entire U.S. economy. In 1886, the NYSE for the first time saw over one million shares sold (Murphy).

On October 29th, 1929, a day known as Black Tuesday, the stock market crashed, which started what we know today as the Great Depression, which lasted a decade. A series of banking and financial crises over the next decade also contributed to the Great Depression. The country eventually recovered from the Great Depression through financial reforms, President Roosevelt's New Deal Programs, and World War II. According to the [federalreservehistory.org](https://www.federalreservehistory.org), the stock market did not fully recover to its peak of the 1920s until November 23, 1954.

In this paragraph, I would like to write about the Dow Jones, NASDAQ, and S&P 500, which are the three biggest stock indexes. According to [conneticuthistory.org](https://www.conneticuthistory.org), in 1896, the Dow Jones Industrial Average was created by Edward Jones and Charles Dow from their company, Dow Jones & Company. The index originally tracked twelve industrial companies according to SoFi Learn. The Dow has evolved over the years into an index that tracks thirty of the largest and well-established stocks within the U.S stock market. They also have another index called the Dow total U.S. stock market that tracks all stocks in the United States. In 1923, the precursor to the S&P 500 was created by Henry Barnum's company, Poor's Publishing (SoFi Learn). By 1926, ninety stocks were being tracked by this early version of the S&P 500. In 1941, the S&P 500 as we know it today was formed when Poor's Publishing merged with Standard Statistics, hence the name S&P (SoFi Learn). In 1971, the National Association of Securities Dealers Automated Quotations (NASDAQ) was created, allowing stocks to be traded electronically for

the first time (SoFi Learn). This was an extremely important shift to the modern era of stock trading because today, most stocks are traded online.

In 2008, the stock market crashed, leading to the Great Recession. I was just a child during the Great Recession, but I'm sure some of the older readers remember this time very well. The Great Recession was caused primarily by banks issuing subprime mortgages to borrowers with poor credit and by a real estate market that was already artificially inflated. When the real estate market crashed, banks were unable to collect payments on the loans they had issued, leading them to foreclose on homes and, in some cases, go bankrupt. That, in turn, caused the stock market to crash, resulting in the Great Recession. The Great Recession not only put an economic burden on the United States but also on the global economy as a whole. The U.S. government reacted by bailing out some of the banks and issuing a series of financial reforms, like the Troubled Asset Relief Program and the American Recovery and Reinvestment Act.

In 2020, during the COVID-19 pandemic, the stock market once again crashed, but in this decade, it has bounced back, and as previously mentioned, it has constantly been breaking record highs. I did not write this article to make a prediction or financial advice about the stock market, but history shows that the market goes up and down, and I do not see that being any different in the future. If time progresses, there will inevitably be another market crash, and I'm not sure when that will be, but you can take it to the bank that it will.

Sources

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